

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Bi-Bett 3018 Willow Pass Road, Suite 102 Concord, CA 94519 Contra Costa County	Amount Requested: \$400,000 Requested Loan Term: 15 years Date Requested: February 26, 2004 Resolution Number: HII-163
Project Site: Southern Solano Alcohol Counsel (“SSAC Detox”) 419 Pennsylvania Street, Vallejo, California (Solano County)	
Facility Type: Alcohol and Drug Recovery Facility	
Use of Loan Proceeds: To refinance the 1992 STARTS Bonds, which have a current interest rate of 6.75%. This refunding will result in a savings of approximately \$10,000 per year in debt service payments and \$150,000 over the life of the loan.	
Type of Issue:	HELP II Loan
Prior HELP II Borrower:	No, however, Bi-Bett is a borrower under the STARTS program.
Payment Status:	Current
Financial Overview: Bi-Bett has consistently operated with surpluses during our review period. Bi-Bett has a very strong balance sheet, as exhibited by its excellent liquidity, substantial financial resources, minimal long-term debt, and very solid projected debt service coverage.	
Sources of Revenue:	<u>Amount</u> <u>Percent</u>
<i>(FYE 6-30-03)</i>	
Government contracts	\$4,519,557 70.0%
Drinking Driving Program	925,716 14.3%
Resident fees and rent	597,642 9.2%
Other	<u>432,555</u> <u>6.5%</u>
Total revenue	<u>\$6,475,470</u> <u>100.0%</u>
<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>
HELP II loan	\$400,000 Refinance 1992 STARTS bonds \$570,000
HealthCAP*	<u>182,000</u> Financing costs <u>12,000</u>
Total Sources	<u>\$582,000**</u> Total Uses <u>\$582,000</u>
. * Subject to HealthCAP loan underwriting and approval The HealthCAP loan will be secured by another real property owned by Bi-Bett. **Per the Authority underwriter guidelines, borrower funds will not be required, since the loan to value ratio is less than 95%.	
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.	
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Bi-Bett subject to receipt of HealthCAP funds or another acceptable funding source, plus standard HELP II loan provisions.	

STAFF SUMMARY AND RECOMMENDATION

Bi-Bett

February 26, 2004

Resolution Number: HII-163

- I. PURPOSE OF FINANCING:** Loan proceeds will be used to refund the 1992 STARTS Bonds, which will reduce its monthly mortgage payment and improve its operating cash flow.

Refinance Authority 1992 Series A Bonds.....**\$570,000**

Bi-Bett seeks to refinance an existing multi-family apartment unit. The facility is used by the Southern Solano Alcohol Council (SSAC Detox) as a 9-bed licensed non-medical detoxification and sober living apartment. This 4,000 square foot facility was appraised on December 1, 2003 at \$559,000, leading to an acceptable loan to value ratio of 72%.

Financing Costs **12,000**

Authority Fee5,000

NCB Fees4,800

Closing fees2,200

Total..... **\$582,000**

Financing structure:

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$97,219.
- First position lien on property located at 419 Pennsylvania Street, Vallejo, California.
- Maximum loan to value ratio of 95%, estimated loan to value ratio of 72%.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Bi-Bett Corporation
Statement of Activities
Unrestricted

	As of	For the Year Ended June 30,		
	<u>November 30,</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	2003			
	(unaudited)			
Revenue, gains and other support				
Government contracts	\$ 1,961,162	\$ 4,519,557	\$ 4,412,269	\$ 3,939,826
Drinking driving program	376,773	925,716	905,618	829,617
Resident fees and rent	210,040	597,642	602,799	591,471
UA - Pharmchem	36,589	91,820	84,329	80,788
Walden House	27,359	90,484	119,214	69,600
Food stamp/food related revenue	38,042	85,462	114,793	101,881
Donations	2,752	56,163	91,756	78,182
Reach plus	37,755	45,269	145,988	76,632
Other income	5,140	14,761	7,647	28,588
Veterans administration	3,534	13,262	12,730	20,732
Kaiser	2,820	8,805	12,815	9,855
Conrep	4,085	8,577	8,757	16,114
New Connections	-	1,350	3,240	-
Phoenix Access Program	-	-	-	810
Phoenix Houses	-	-	2,368	2,253
Interest and dividend income	631	7,391	13,803	-
Net assets released from restrictions	-	9,211	-	-
Total revenue, gains and other support	<u>2,706,682</u>	<u>6,475,470</u>	<u>6,538,126</u>	<u>5,846,349</u>
Expenses				
Salaries	1,044,210	2,657,584	2,694,702	2,417,085
Benefits	298,344	717,404	601,880	499,066
Rent	271,111	675,143	646,103	615,654
Depreciation and amortization	41,517	121,418	113,555	115,010
Interest	18,703	48,086	41,267	41,311
Food	126,922	337,496	335,296	323,839
Facilities supplies	71,844	154,275	243,551	143,235
Utilities and telephone	107,299	321,444	324,954	320,033
Maintenance	67,067	210,834	291,618	238,728
Insurance	54,094	131,307	114,691	99,468
Transportation	34,557	93,732	84,891	86,544
Staff development and conferences	5,723	18,346	28,049	20,641
Dues, publications and subscription	3,495	11,020	18,315	24,269
Educational films	2,862	7,312	8,521	8,187
Program costs	40,465	122,980	107,461	74,461
Outside services	99,697	271,285	174,585	197,690
Printing and office expense	36,776	86,330	101,557	89,303
Personal needs	10,625	24,180	25,500	23,628
Professional fees	85,465	168,471	179,379	69,426
DUI fees paid	13,917	53,083	52,081	46,350
Taxes and licenses	3,569	6,495	6,304	6,004
Sub-contractor administration costs	2,500	9,940	12,600	15,122
Advertising	5,073	11,204	22,870	40,889
Other	-	-	34,279	13,114
Total expenses	<u>2,445,835</u>	<u>6,259,369</u>	<u>6,264,009</u>	<u>5,529,057</u>
Increased (decrease) in unrestricted net assets	260,847	216,101	274,117	317,292
Unrestricted net assets, beginning of year	<u>3,290,772</u>	<u>3,074,671</u>	<u>2,800,554</u>	<u>2,483,262</u>
Unrestricted net assets, end of year	<u>\$ 3,551,619</u>	<u>\$ 3,290,772</u>	<u>\$ 3,074,671</u>	<u>\$ 2,800,554</u>

Bi-Bett Corporation
Balance Sheet

	As of		As of June 30,	
	November 30, 2003 (unaudited)	2003	2002	2001
Assets				
Current assets:				
Cash	\$ 2,241,250	\$ 2,222,626	\$ 1,840,790	\$ 1,548,159
Certificates of deposit	127,036	127,036	125,843	123,032
Receivables	802,183	716,950	908,552	895,687
Prepaid expenses and deposits	143,984	154,302	146,850	132,719
Total current assets	<u>3,314,453</u>	<u>3,220,914</u>	<u>3,022,035</u>	<u>2,699,597</u>
Property and equipment, net	1,076,359	1,091,164	1,130,284	1,162,988
Investments	8,651	8,651	8,611	12,083
Total assets	<u>\$ 4,399,463</u>	<u>\$ 4,320,729</u>	<u>\$ 4,160,930</u>	<u>\$ 3,874,668</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 5,754	\$ 104,008	\$ 157,191	\$ 137,999
Accrued expenses	126,980	191,488	154,877	132,490
Deferred income	284	284	8,529	19,541
Current portion of obligations under capital leases	-	-	16,185	831
Current portion of long-term debt	37,069	43,748	32,769	33,729
Total current liabilities	<u>170,087</u>	<u>339,528</u>	<u>369,551</u>	<u>324,590</u>
Long term debt, net	548,333	561,005	578,113	607,456
Total liabilities	<u>718,420</u>	<u>900,533</u>	<u>947,664</u>	<u>932,046</u>
Net assets:				
Unrestricted	3,551,619	3,290,772	3,074,671	2,800,554
Temporarily restricted	129,424	129,424	138,595	142,068
Total net assets	<u>3,681,043</u>	<u>3,420,196</u>	<u>3,213,266</u>	<u>2,942,622</u>
Total liabilities and net assets	<u>\$ 4,399,463</u>	<u>\$ 4,320,729</u>	<u>\$ 4,160,930</u>	<u>\$ 3,874,668</u>

Financial Ratios:

	Proforma ⁽¹⁾			
	FYE 2003			
Debt Service Coverage (x)	4.50	4.20	4.75	6.24
Debt/Unrestricted Net Assets (x)	.17	.18	.19	.22
Margin (%)		3.34%	4.19%	5.43%
Current Ratio (x)		9.49	8.18	8.32

(1) Recalculates June 2003 audited results to include the impact of the HELP II and HealthCAP loan financing.

Financial Discussion:

Bi-Bett has consistently operated with surpluses during our review period.

Bi-Bett has exhibited a very successful operating history over the past three fiscal years. Bi-Bett has posted solid gains in unrestricted net assets of this period, ranging from \$216k to \$317K, with margins of 3.3% to 5.4%. Bi-Bett's revenue base is mostly dependent upon government contracts, which derive 70% of total revenues. Government contracts have grown 15% over our review period, with most of this being a result of Proposition 36/SACPA funding, in which it received contracts from Alameda, Contra Costa, and Solano County. These contracts serve probationers.

Bi-Bett has continued to maintain control of operational expenses over our review period, given the higher cost environment experienced by most Drug and Alcohol agencies. Bi-Bett's expenses have increased by 11% from \$5.5 million in fiscal year 2001 to \$6.2 million in fiscal year 2003, due to rising costs salaries/benefits, workers compensation and insurance.

Salaries have grown approximately 10% as a result of normal operational COLA's and step increases. Benefits have jumped 44%, primarily due to higher Workers Compensation costs, which have increased by 100%. Insurance costs have risen 32%, specifically Kaiser Medical Costs have increased sharply. Finally, rent expenditures have increased by 10%, which are typical in the strong Bay Area commercial rental market. To help offset these increases, Bi-Bett has cut some benefits moderately.

Bi-Bett has a very strong balance sheet, as exhibited by its excellent liquidity, substantial financial resources, minimal long-term debt, and very solid projected debt service coverage.

Bi-Bett's liquidity is excellent, with cash and cash equivalents of approximately \$2.2 million. In addition, Bi-Bett has an impressive \$3.2 million in unrestricted net assets compared to only \$570,000 of long-debt, leading to a debt to unrestricted net assets ratio of only .18x. The proforma debt services coverage is a very solid 4.50x, indicating that Bi-Bett should comfortably be able to repay the loan.

III. UTILIZATION STATISTICS:

<u>Types of Services</u>	<u>Bi-Bett</u>		
	<u>2003</u>	<u>Fiscal year ending June 30,</u> <u>2002</u>	<u>2001</u>
Licensed Residential Programs	66,655	68,601	62,049
Certified Outpatient Programs (Ind./Group)	1,931 / 15,495	1,641 / 13,094	1,531 / 11,581
Licensed DUI Programs	2313	2328	2,270

IV. ORGANIZATION:

Background: Bi-Bett was founded in 1969 by David E. Brown, as a California non-profit corporation. With the support of his family, community members and Contra Costa County, Mr. Brown, a recovering alcoholic, established the first Alcoholism Recovery Program in Contra Costa County. This 30-bed residential program for recovering alcoholics provided a humane and cost effective alternative to repeated hospitalizations and county jail incarcerations of the alcoholic. Over the last 35 years, services have expanded to include the individual, family and communities of Contra Costa, Alameda and Solano Counties.

Bi-Bett's mission is committed to the belief that everyone has value and can grow if given the rightful opportunity to choose. It also believes that alcohol and chemical dependency are diseases that adversely affect the thinking, feelings and behavior of the alcoholic/addict and those closely involved with the dependent person.

By providing the tools, resources and support to individuals regardless of ability to pay, religion, color, ethnicity, national origin, age, sexual orientation, disability or history of relapse, Bi-Bett strives to create an environment conducive to personal and social growth and lifetime recovery from alcoholism and drug addiction.

Bi-Bett provides services to almost 10,000 individuals per year residing in Alameda, Contra Costa and Solano Counties. Bi-Bett currently has 21 various facilities and related social model programs.

The property being refinanced is Southern Solano Alcohol Council (SSAC Detox), which is a 24-hour drop-in licensed 9-bed detox located in Solano County. SSAC serves 9,000 drop-in visits and 520 residential detox admissions per year. Activities include education, self-help groups and low-cost sober living apartments for men.

Licenses: Southern Solano Alcohol Council is licensed as an Alcohol and Drug Treatment Facility by the Department of Alcohol and Drug Programs.

Service Area and Competition: Southern Solano Alcohol Council is the only licensed residential detox in Solano County. It currently has 100% of the market.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/03 (audited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA STARTS, 1992	\$1,400,000	*\$604,573	\$-0-
Proposed:			
CHFFA HELP II Loan, 2004		N/A	400,000
National Cooperative Bank 2004			182,000
TOTAL DEBT		\$604,573	\$582,000

* Includes current portion of long-term debt.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Bi-Bett has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) to post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

Bi-Bett has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Bi-Bett subject to receipt of HealthCAP funds or another acceptable funding source, plus standard HELP II loan provisions.